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Holt, George H.

Partners in insurance

[Chicago]

[1913]

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Reprint from minutes of the Fifth mass conference of National association of upholstered furniture manufacturers, Chicago, May 8-9, 1913.

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Reprint from minutes of the Fifth Mass Conference of National Association of Upholstered Furniture Manufacturers, Chicago, May 8-9, 1913.

Partners in Insurance

ADDRESS BY

GEORGE H. HOLT

The chairman said in introducing Mr. Holt:

"One of the largest expenditures which goes into the cost of manufacture is Insurance. There are those who have made a special study of this with the view of reducing this cost. We are sure that no one is better able to speak to us upon this subject than Mr. George H. Holt, manager of the Policy Holders' Union."

Gentlemen of the National Association of Upholstered Furniture Manufacturers:

I have been invited to take an interest in your business, that is, to become a partner with you, and we are sitting down together to talk over certain problems and conditions of the business from the inside.

As we left the breakfast table this morning, we were speaking of the pleasures and responsibilities of home life, and of those dear to us and dependent upon us, and of the effort and self denial which have gone into the years during which home and business and reputation were being built up.

We spoke of the other home circles which are dependent upon the success of this business, through their relations with it, as associates, employes and business connections of one kind and another.

That is a field of responsibility which we have only discovered within the past few years, but we find that it belongs to us, and that we must care for it, whether we wish to or not.

We discussed business prospects; the influence of the tariff, of the crops, of the money question, of new legislation which increases cost of production and decreases price of product to the consumer. Legislation which takes taxes at the beginning of the year, and tolls all through the year, and if there is anything left as profit proposes to take a slice of that also. Legislation which imposes new liabilities, while it removes old defenses; which substitutes official supervision for individual initiative; which takes away the home market from the citizen and makes a gift of it to the foreigner—without money and without price.

We felt that it is going to be necessary for us to dig into our problems anew, and see where we stand now, and what we can do to protect or improve our conditions for the future.

Complexities.

I asked you about our insurance—against fire and windstorm and lightning and explosion and water damage, and employers' liability and elevator, team and auto liability, and workmen's compensation, and accident and casualty and health (for Wisconsin seems to be going in for health insurance) and occupational hazards, and credit, and fidelity and guarantee, and partnership, and corporation, and use and occupancy, and rents, and profits, and burglary and holdup, and your own life (so that business and family might not be needlessly imperiled by the misfortune of your death)—and we were still talking about that when we got here.

You said that you had not paid as much attention to that insurance question as

you ought to have paid; that you did not understand it, and really left it mostly to our insurance agent to look after for us.

I asked you what we pay our agent, and you replied that we don't pay him a cent; that the companies pay him a commission upon the amount that he collects of us. I asked you whether that agent was thoroughly acquainted with this business, and knows whether our rates and the conditions of our policies are the same as those which our competitors in other places and states have to reckon with; and, also, what incentive there is for him to cut down the cost of our insurance? Those questions are still unanswered.

Tabloid Experience.

Here are some instructive figures, handed me by Mr. J. L. Maltby, our cost accountant, covering the record of fire insurance on eleven of our properties, located in different cities and states:

Value of property insured, about $1,000,000.00.
Amount of insurance carried, $850,000.00.
Rates from $1.00 to $52.70 per M.
Rates, sprinkled, $1.00 to $6.50 per M.
Rates, unsprinkled, $14.00, $17.10, $21.52, $25.35, $33.10, $52.70 per M.
Average of all, $7.20 per M.

These are all of the plants that answered Mr. Maltby's inquiry. They are not selected, but are as they run, and therefore are significant.

The first thing that I note is that there has been **only one** fire loss on all of these properties in the past five years.

That seems like a very good record, on the whole, but we want to inquire into it further to see whether the loss was due to causes that are peculiar to the furniture manufacturing business or not. If not, then there has been no loss upon these properties which is properly chargeable to this industry within five years. That particular loss belongs to another class. Unless we do investigate it the underwriters will charge it up to our particular classification and damage our record unjustly. In that case every one of our properties will be burdened for years with a charge in the rate which ought not to be there. It is up to us to look that up and straighten it out, because we can't expect the insurance companies to do it for us.

The next thing I notice is that we are carrying more than the usual proportion of insurance to value. The average of insurance to value throughout the country is supposed to be about 50%. Ours is 85% on the average, and in many cases covers full value.

I wonder if we have had proper recognition of that fact in our rate? If not, we are overcharged as a class.

The third thing that I notice is that rates on similar properties are not the same in all localities. They vary in sprinklered risks from $1.00 per M to $6.50 per M., and in unsprinklered properties from $14.00 per M to $52.70 per M. We ought to look into that matter and see why the same companies charge different prices on similar hazards. Is it our agents' fault, or the company's fault? Either some are paying too much or others too little. We know that $1.00 per M is not the lowest rate that other people get on sprinklered properties. Why do we have to pay up to $6.50 per M?

The fourth thing that strikes me is that some of the insurance is written blanket and some specific; some for one year and some for a term of years; some with co-insurance and some not. Which is the right and which is the wrong way?

Some is in Stock companies and some in Mutuals and class insurers. Is the Stock company any better than the other? If not, why do we pay so much for it?

Is that our fault, or the agent's?

Some plants are sprinklered and some not. If the saving in insurance cost pays for the sprinklers, why don't we sprinkle all of them?

The fifth thing that attracts my attention is the great difference in the amount of insurance carried in proportion to the value of the property. Very few fires are total losses. Do we get enough concession in the rate to justify us in carrying full insurance?

You say, "Oh, we want full insurance, anyway. We want the insurance company to pay our loss, if we have a fire—then we can sleep while the fire bell rings."

Does Insurance Cover Our Loss?

How is that? A total loss might give you money in hand to cover the loss on the property, but fire insurance doesn't cover loss in business, on contracts, on overhead expense, on capital, on wasted life. It doesn't cover the loss to your employes and dependents and customers and all the tradesmen and local interests which have roots in your enterprise.

A partial fire loss may occasion loss of records, loss of life, loss of vitality, which insurance money cannot pay for.

And how about the plants that are under-insured? "Oh," you say, "we look out for that. We exercise great care and watch everything so closely that we couldn't have a fire."

Perhaps you do all you can, but how about your neighbor? Can he burn you up? Can a conflagration strike you? Can a tornado or lightning or cold or explosion or an incendiary wreck your protection; or a flood or disaster delay the fire department or cripple the water works and give the fire a start? Plenty of such thing have happened.

But here is another point to consider. Any loss in any of our properties goes into the loss record of our class, and is tacked on to all our good and better plants, and in the end we pay the loss ourselves.

The insurance companies have less than ninety millions of capital and surplus, and they have over fifty-two thousand million dollars at risk. They pay annual fire losses said to be $225,000,000 and expenses and dividends of about the same amount. They can't and don't pay our losses out of their capital. They pay them out of our premiums. You see that, don't you?

Every year they collect enough premiums to pay all losses and expenses and a profit besides, and we must stand our part.

Partners in Insurance.

That brings us face to face with the fact that while we sit together here in convention as owners of competing enterprises, we are in fact **all partners in insurance and in fire waste and loss.** It cannot be a matter of indifference to us that one of us burns out, because his loss turns up in our own rate somewhere, for the fire loss is put into the statistics upon which our rates are calculated.

It is this fact of mutual interest in insurance, of partnership with every furniture manufacturer and upholsterer and to some extent with every wood worker, in fire waste and fire cost, that I wish especially to bring to your attention, because our only hope of relief lies in the recognition of that fact and in acting upon it.

If we are partners, let us consider the interests and profit of the partnership. Let us be loyal to it and work for it. How? Simply bunch our insurance problems, put them in control of an executive committee, and let that committee figure it out and decide. The power of such a committee dealing with such a large volume of insurance, would be so great that they could go over the heads of all petty agents and Boards and buy insurance at a fair price and upon favorable terms. No man's rate is so low now that it could not be reduced by that method, if managed with ability and loyalty.

Collective Buying.

I call this method **Collective Buying,** or Collective Bargaining.

Not a new thing, but simply a new application of a very successful and common sense method. It is something that you can start upon at this meeting, by resolution authorizing the appointment of such a committee, and you will begin to get results in a very short time.

I will hand you the Report of the Insurance Committee of the National Wholesale Lumber Dealers Association upon this subject. You will find in it many detail suggestions which may answer some of your doubts or questionings.

I suggest that your Committee get in touch with the National Wholesale Lumber Dealers Association Committee and collaborate with them in a scheme of operation. The Convention of the National Lumber Manufacturers Association at Kansas City in June will probably deal with this subject, and the Committee will doubtless want to get into touch with that organization.

If you are ready for it, your Committee will doubtless from week to week get into communication with other commercial organizations throughout the country, and the movement will make rapid headway. There is nothing to lose, and much to gain by prompt action.

This brings us to the subject of

Normalized Hazard.

There are certain hazards peculiar to this business, due to materials and processes and methods of storage and packing and transportation. These class hazards are not numerous or mysterious and some of us have practically eliminated them, and the cost of doing so has come back to them in the savings in insurance.

Why can't we all do that? It is not a financial question at all, because there are companies which make a business of financing such cases and taking their pay out of the savings. They will figure the whole thing out for us and show up just what can be done. There is no good reason for refusing to protect our property and our employes when it can be done not only without cost, but actually at a profit.

I will not say that this can be done in every case, but it has been done in so many cases that it is worth while to look into it in every case, don't you think so?

In the same way that class hazards can be cut out, other hazards can be cut out. There is no question about that, for it is being done voluntarily by many people everywhere. More than that, some degree of improvement is being required by law in many cities and states, and the Fire Marshal and Building Commissioner and Department of Public Safety are new forces which we must reckon with.

Defenses Knocked Out.

That is one new fact. Another, of similar importance, is that new laws which take away the defenses which have heretofore existed against accident and negligence and carelessness and viciousness and industrial hazards of all kinds, and special and general liabilities of property owners and manufacturers and owners of machinery, teams, automobiles, etc., present grave problems which are not yet understood or solved. We have no idea where they will land us.

New York and other States have removed practically all defenses so that liability and accident underwriters and actuaries estimate that loss and cost will soon increase at least three-fold, and perhaps four-fold. If those losses are made to fall crushingly upon individual employers and manufacturers, as it appears now that they will fall, we may well take fright. Individually, we cannot make ourselves felt in defense or in correction, but collectively we can exert great influence.

Loss of life in one of our plants, due to fire or panic or mere carelessness, will be fastened upon us. We must either stand the shock or insure against it, or get the laws amended. Which shall it be?

Legislation.

This subject of Legislation is a most important one.

The laws in the different states in which our plants are located are not only unlike, but conflicting in the last degree. Rates and practices that are enforced in one state are prohibited and made a felony in other states. Some states compel us to do things that the next state would fine us or jail us for doing. All of our old experience is worse than useless, because the laws have been changed. I cannot impress this fact upon you too strongly. You may think that things will go along as they have gone, but you are mistaken. They cannot. A revolution is in progress which only those in the business have any conception of.

Don't think for a moment that you must do things the way you have done them, because you may not only render your insurance invalid and uncollectible without knowing it, but you may lay yourself open to fines and taxes and even imprisonment.

In the thirty old Legislatures which have been in session this winter, scores of bills have been passed making radical changes in insurance laws, and some Legislatures are still in session.

You can imagine but faintly the confusion and conflict of laws which will be found upon the statute books when the Legislatures adjourn and some one has had time to analyze and tabulate them.

You can see that an occasional association meeting is no place to attempt to investigate and pass upon those questions. Neither is it good business to attempt to have each individual trade organization maintain a legal and technical and legislative force to deal with these problems. Least of all is it practicable for individual owners and companies to handle these problems as individuals. Is it not plain to you that the problem is a nation-wide problem and that this national association should affiliate with all other national associations that are dealing with it and thereby get effective service at an economic cost?

There are important measures in several states still under consideration that ought to be looked into. Wisconsin proposes both compulsory monopoly and State Insurance. Illinois has not yet fairly settled down to deal with the measures before it, but as the insurance men are in the saddle in this state and have money and men to work with, the simple-minded property owner need not expect much of a core left for his enjoyment.

Unjustifiable Rates.

The abuse of power by the underwriters in Illinois is greater than in any adjoining state and greater in Chicago than in any city in the country.

The average rate of the plants shown on Mr. Maltby's list is $7.20 per M. The average of such plants located in Chicago is above $30.00 per M.

That represents the power of the Chicago Board of Underwriters. The insurance agents, not the companies, make and enforce the rates in Chicago. The companies would be glad to take the business at lower rates, as they do in all other similar cities, but the agents and hangers-on want the money and have the power, to take it away from us.

Collective Buying, such as I have proposed, would soon break down that monopoly and its extortions. The Committee ought to be authorized to spend such money as they may think desirable to get necessary information and advice, and to deal with all of these complicated and conflicting conditions in the common interest.

But even then, every man of us ought to put on his thinking cap and see what he can do, both for the general good and for his private interest.

The Chairman—Those who were here last year will remember the interesting and instructive lecture we had by one of the representatives of the Sheldon school. We have with us today another representative of the same institution, the Sheldon school, who will present a stereopticon lecture on the subject of salesmanship and business efficiency. I take pleasure in introducing to you Mr. Tolles.

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